Conservative reporting and the incremental effect of mandatory audit firm rotation policy: a comparative analysis of audit partner rotation vs audit firm rotation in South Korea

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Figure 1: Conservative Reporting and Mandatory Audit Firm Rotation

- **Entrenchment Hypothesis** (Regulator’s point of view)
  - Longer Audit Tenure creates collusive relationship
    - Audit Partner Rotation
      - Introduce (To prevent familiarity threats)
      - High profile accounting scandals
      - Audit Firm Rotation
        - Determine
          - Upside: Improved Audit Quality by enhancing independence
          - Downside: Deteriorated Audit Quality by loss of knowledge
            - Expertise Hypothesis (Auditor’s point of view)
              - Conservave Reporting